Appendix to the October 2005 Report on Medicaid Reform Activities
Preliminary Findings and Recommendations

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Introduction

This appendix to the October 2005 monthly report will summarize preliminary findings and recommendations from information and feedback received to date by the Medicaid reform designees for review by Governor Heineman, members of the Nebraska Legislature, members of the Medicaid Reform Advisory Council, and the general public.

The preliminary findings and recommendations contained in this report are intended for the purpose of soliciting further public input to the process of Medicaid reform in the State of Nebraska. Although they offer a general framework and direction for Medicaid reform, they are not comprehensive, nor should they be considered as final recommendations of the Medicaid reform designees.

Executive Summary

The current Nebraska Medicaid Program is not fiscally sustainable. The growth of Medicaid spending in Nebraska has outpaced the growth of General Fund revenues for the past twenty years. An analysis of current and projected costs and changes in the state's population shows that the program will continue to outpace the growth of state revenues. Substantial reform of the program is necessary.

Nebraska lacks a clear Medicaid public policy. The Legislature should clarify the purposes and values of the Medicaid program. This can be accomplished as a part of a recodification of the Medicaid laws.

Medicaid reform in Nebraska may be accomplished in either of two ways. First, through important modifications within the current program structure, the growth of Medicaid can be reduced substantially with support of providers and consumers, the program can become fiscally sustainable without significant changes in eligibility and few or no changes to covered services. The program can continue to define the benefits eligible persons are entitled to receive, coupled with increased use of cost-effective waivers. The growth of costs can be moderated and appropriate health care services delivered through improved oversight of high cost services and high cost individuals and through increased personal responsibility.

Second, Medicaid reform may be accomplished through a complete restructuring of the current entitlement system. Several reform-minded states are proposing to move to systems where the state provides a defined amount of funding to recipients to assure that the program is fiscally sustainable. The recipient is then responsible for obtaining appropriate health care insurance or health care services.

The Preliminary Findings and Recommendations do no select between these two paths. They propose alternative recommendations for public discussion before the final reform plan is prepared. Similarly, this report proposes alternative recommendations with regard to fiscal sustainability, public policy, covered services, cost-sharing, and ways to moderate the Medicaid cost-drivers.

There are alternatives to Medicaid that also should be pursued. Establishment of additional community health centers can improve access to primary care and medications for both the uninsured and Medicaid-eligible populations. Small employers and their employees can be encouraged and assisted in obtaining health insurance coverage. These recommendations are also presented as alternatives to invite public discussion.

Fiscal Sustainability

Preliminary Finding. The Nebraska Medicaid program is not fiscally sustainable as it is currently structured and operated. In the past 20 years, the state General Fund cost of the Medicaid program grew from $57 million to $468 million, or from 6.9% of General Fund appropriations to 17.2%. This was an average annual growth of 10.8% while General Fund revenues grew at only 6.9%. Considering only the increased costs of medical care and the projected changes in the makeup of Nebraska's population, the required General Fund cost of the program may grow to $2.4 billion per year in the next 20 years. This growth will continue to exceed the projected growth in state revenues. Without significant changes, the State General Fund costs of the program will consume a greater share of General Fund revenues. Such a growth would compete for funding with other state government programs that presently rely on General Funds.

Preliminary Recommendations. One or more of the following recommendations may be adopted.

- The Medicaid program must be structured to reduce the growth of expenditures. Because Medicaid growth and state revenue growth do vary from one another, and may be counter-cyclical, the effective reduction of growth should be measured over time.
- Medicaid should not take a larger share of state revenues, over time, than it currently does.
- Long-term Medicaid growth projections, based on current eligibility and covered services, Medicaid cost inflation, and demographic changes, compared to General Fund Revenue growth projections, suggest that projected Medicaid expenditure growth would have to be reduced an average of 1.9% a year to avoid a $907 million General Fund shortfall by 2025.
- Long-term Medicaid growth projections should be compiled, compared to revenue growth projections, and adjusted every two years as a part of each biennial budgeting and appropriations process.

Medicaid Public Policy

Preliminary Finding. The Nebraska Medicaid law lacks an explicit statement of the state's public policy for Medicaid.

Preliminary Recommendations. One or both of the following recommendations may be adopted.

- Recodification of Medicaid and related statutes should contain a clear statement of the state's Medicaid public policy. Such a policy statement could include a description of the purposes of the program and the values it supports.

- The Nebraska Medicaid program should be guided by the following principles:
  - Those who are able to do so should assume personal responsibility for themselves, their minor children, and others for whom they are legally responsible 1) to pay for or contribute to the costs of health care services, and 2) to appropriately use cost effective health care goods and services.
  - The populations to be served by the Medicaid program are low income children, parents or caretakers of eligible children, aged persons, and persons with disabilities.
  - The services to be provided by the Medicaid program are the federal mandatory services and those optional or waiver services that are cost effective alternatives.
  - Neither Medicaid eligibility nor services should be expanded without having achieved sufficient savings, having a corresponding reduction elsewhere in the program, or having identified existing General Funds in other programs that can provide state matching funds.
  - The federal Medicaid program contains entitlements to services for eligible persons. The Nebraska Medicaid program will create no additional entitlements and, where appropriate, it should seek waivers of entitlements from the Centers for Medicare and Medicaid Services.

Type of Reform

Preliminary Finding. Medicaid Reform has become a priority for numerous states that find their current program is not fiscally sustainable. Reform is taking two major forms: 1) moving from a defined benefit to a defined contribution structure, as in Florida or South Carolina, and 2) placing nearly all eligible persons and all eligible services in statewide managed care programs, as in Indiana or Ohio. Statewide managed care programs are not likely to be successful in Nebraska at this time. A defined contribution plan is specifically designed to allow a Medicaid program to become fiscally sustainable. In addition, the Nebraska Medicaid program may become fiscally sustainable by adopting changes within the current structure.

Preliminary Recommendations. One or more of the following recommendations may be adopted.

- The state of Nebraska should pursue the adoption of a defined contribution plan waiver request by 1) funding a consulting contract, 2) issuing a Request for Proposals (RFP) and retaining a consultant, and 3) preparing and submitting a waiver request to the Centers for Medicare and Medicaid Services.
- The state of Nebraska should immediately proceed to modify the Medicaid program within its existing structure through program improvements, increased use of cost effective HCBS waivers for the aged and disabled populations, and the use of some form of care coordination or case management of selected populations or disease conditions. (See Preliminary Findings and Recommendations for Moderating Cost Drivers in the Medicaid Program, page 5)
- The state of Nebraska should modify the Medicaid program within its existing structure as a short-term Medicaid reform strategy and should pursue a defined contribution waiver as a long-term Medicaid reform strategy.

Eligibility

Preliminary Findings. Mandatory eligibility for adults is limited to 70% or less of the Federal Poverty Level (FPL) and for children it is limited to 133% FPL. Optional eligibility in Nebraska has been extended primarily to the Medically Needy categorically eligible persons and to children through the State Children's Health Insurance Program (SCHIP). Both of these populations are within the priority populations that should receive assistance in obtaining health care. Categorical eligibility is an appropriate requirement for the Medicaid program, which is intended to serve only the poorest and most vulnerable residents. With the present projected growth of Medicaid, expansion of Medicaid to uninsured persons is not fiscally sustainable.

Preliminary Recommendation. There should be no change to current eligibility requirements, either by expanding or contracting eligibility standards. The issue of the uninsured should be dealt with through alternatives to Medicaid eligibility.

Covered Services

Preliminary Findings. Long-term care services for the aged and disabled, which are not normally covered under commercial health insurance policies, are available under the Medicaid program. The other health care services covered by the Nebraska Medicaid program are roughly equivalent to those available to state employees through employer sponsored health plans, with the following exceptions: cost-sharing through premiums, deductibles, and co-payments are widely used in employer sponsored plans and allowed to be used only to a very limited extent in Medicaid; a few services are more limited as to total services or total expenditure in the employer sponsored plan, mental health services are more available in the Medicaid plan, and Medicaid covers more home and community services that are intended to be cost effective.

Preliminary Recommendations. One of the following recommendations may be adopted with regard to the actual services.

- There should be no change to covered services.
- With the exception of long-term care services for the aged or disabled, covered Medicaid services should be limited as to total services or total expenditures in a manner similar to private health insurance.
- The SCHIP program, from 133% to 185% of poverty, should be a stand-alone program and no longer a Medicaid-expansion program, which would allow coverage to be tailored to the needs of that population.

Preliminary Findings. Federal regulations allow only minimal cost sharing for Medicaid eligible persons. Mandatory eligibility income levels are low enough that additional cost sharing is likely to limit access to necessary services. The optional Medically Needy are currently required to contribute their excess income to their care. There are a few optional populations, including SCHIP and low income Medicare eligible persons who have incomes above 100% FPL that may be able to participate in additional cost sharing, on a sliding scale, without limiting access to necessary services. In addition, several eligibility groups allowing children to receive services do not count parental income when determining eligibility or cost-sharing.

Preliminary Recommendations. One or more of the following recommendations may be adopted with regard to cost-sharing.

- There should be no additional cost-sharing required of eligible persons.
- Cost sharing should be imposed upon eligible persons at or above 100% of the federal poverty level (FPL) though submission of a waiver to CMS.
- SCHIP, from 133% to 185% of poverty, should be a stand-alone program and no longer a Medicaid-expansion program, which would allow additional cost-sharing to be required.
- Cost-sharing should be imposed on those parents currently excluded from cost-sharing whose children are receiving Medicaid services and whose incomes exceed 133% FPL.

Moderating Cost Drivers in the Medicaid Program

Preliminary Finding. The majority of Medicaid costs are incurred providing services to the aged and the disabled. Adults with disabilities are the most expensive to serve. The aged are the second most expensive, and children with disabilities are third. In addition, in each category of eligibility, a small percent of recipients are very expensive and require the majority of expenditures for the entire category. People with chronic conditions have better clinical outcomes if their care is monitored in accordance with accepted protocols. Pharmaceuticals are growing in importance in health care and their costs are escalating rapidly. Any reform plan must find a way to deliver appropriate care while controlling costs. The Nebraska Medicaid program cannot control general health care inflation, but it can employ means to reduce the unnecessary utilization of goods and services and to purchase the most cost-effective goods and services.

Preliminary Recommendations. One or more of the following recommendations may be adopted.

- Increase the availability of Home and Community Based Services as an alternative to nursing facility care, particularly as the number of 65+ persons increases.
- Encourage nursing facilities, hospitals, and other facility-based services to provide cost-effective Home and Community Based Services, particularly in those rural areas where there are shortages of services.
- Contract for care coordination or care management for the most expensive 10% of each of the four eligibility categories (children, adults, aged, and disabled).
- Contract for disease management services for those persons with chronic diseases for which accepted management protocols have been established.
- Contract to provide more intensive prenatal and postnatal counseling or care coordination.
- Contract to provide education and information regarding effective use of psychotropic medications to prescribers.
- Require prior authorization of all new brand name prescription drugs until the efficacy and appropriate utilization is clearly established.
- Establish an open formulary and preferred drug list for those classes of prescription medications for which established efficacy studies exist.
- Participate in a drug purchasing pool with other states.
- Implement a Cash and Counseling model for providing eligible persons access to Home and Community Based Services.

Alternatives to the Medicaid Program

Preliminary Finding. Approximately 145,000 Nebraskans under the age of 65 are uninsured. The uninsured are more likely to have low incomes and to work for small employers. With the costs of employer sponsored health insurance plans increasing, small employers are increasingly reluctant to provide health coverage to their employees. Where coverage is available, the employee's contribution to employer health plans in Nebraska exceeds the national average.

Preliminary Recommendation. One or more of the following recommendations may be adopted:

- The state should study the feasibility and cost-effectiveness of a Medicaid waiver.
- The state should explore the possibility of creating a public/private partnership with small employers to offer insurance coverage to employees.
- A study could include the feasibility of a state-created reinsurance program to stabilize premiums in conjunction with the Children's Health Insurance Program, to allow Medicaid to pay a portion of the health insurance premium for families at or below 185% of poverty.
- The state should develop an educational program to inform consumers and small employers of benefits of health insurance coverage and the features offered by different kinds of health policies.

Preliminary Finding. Community health centers are an important part of the primary health care network. They can provide improved access to primary and preventative care for Medicaid-eligible and uninsured persons. They can be operated successfully by local health departments and non-profit organizations. Organizing and financing community health centers is complex and requires the cooperation of the local community and technical assistance.

Preliminary Recommendation. The state of Nebraska should establish a technical assistance committee to work with local health providers, elected officials, and other community leaders to establish community health centers, satellites of existing community centers and, where possible, to help them qualify as Federally Qualified Health Centers.

Preliminary Finding. Pharmaceuticals are both important to maintaining health and controlling health conditions. They are expensive and difficult to obtain, particularly for the uninsured. Actions should be taken to improve access to necessary drugs.

Preliminary Recommendation. The federal 340B Program provides access to discount drugs. Eligible entities should be informed of the program and encouraged to apply for it. The state should also encourage the formation of a pharmacy clearinghouse that would assist eligible consumers to identify and apply for available pharmaceutical manufacturers' drug discount programs.